

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Application of Liberty Utilities (CalPeco Electric) LLC (U 933-E) for Authority to Among Other Things, Increase Its Authorized Revenues For Electric Service, Update Its Energy Cost Adjustment Clause Billing Factors, Establish Marginal Costs, Allocate Revenues, And Design Rates, as of January 1, 2016.

Application No. 15-05-008  
(Filed May 1, 2015)

**JOINT MOTION TO ADOPT ALL-PARTY SETTLEMENT AGREEMENT AMONG  
LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U933E), THE OFFICE OF  
RATEPAYER ADVOCATES, AND THE A-3 CUSTOMER COALITION**

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May 18, 2016

**BEFORE THE PUBLIC UTILITIES COMMISSION  
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Application of Liberty Utilities (CalPeco Electric) LLC (U 933-E) for Authority to Among Other Things, Increase Its Authorized Revenues For Electric Service, Update Its Energy Cost Adjustment Clause Billing Factors, Establish Marginal Costs, Allocate Revenues, And Design Rates, as of January 1, 2016.

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Pursuant to Rule 12.1 of the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure (“Rules”), Liberty Utilities (CalPeco Electric) LLC (U933E) (“Liberty Utilities”), the Office of Ratepayer Advocates (“ORA”), and the A-3 Customer Coalition (“Customer Coalition”) (collectively, “the Settling Parties”) hereby jointly and severally move that the Commission adopt the attached, proposed All-Party Settlement Agreement (the “Settlement”) (Attachment A) entered into by and among the Settling Parties that resolves all disputed issues regarding Liberty Utilities 2016 General Rate Case application (“Joint Motion”).<sup>1</sup> Furthermore, as described in Section VI below, the Settling Parties also move that the Commission admit into the record their respective testimonies.

The Settlement fulfills the criteria that the Commission requires for approval of settlements.<sup>2</sup> As explained below, the Settlement is reasonable in light of the whole record,

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<sup>1</sup> Pursuant to Rule 1.8(d), Liberty Utilities has been authorized to sign the Joint Motion on behalf of the Settling Parties.

<sup>2</sup> Rule 12.1(d): “The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.”

consistent with the law, and in the public interest. For these reasons, the Commission should grant this Joint Motion and adopt and approve the Settlement.

The Settling Parties respectfully urge the Commission to issue its Decision as soon as practicable and in all events on or before the Commission Voting Meeting to be held on September 15, 2016. Approval by this date would allow the revised rates to become effective as of October 1, 2016, in accordance with the terms of the Settlement.

## **I. BACKGROUND**

### **A. Liberty Utilities**

Applicant Liberty Utilities serves approximately 49,000 electric customers in California, in and around the Lake Tahoe Basin. Liberty Utilities' California customers are located in portions of Placer, El Dorado, Nevada, Sierra, Plumas, Mono, and Alpine Counties. Almost 80% of Liberty Utilities' customers are located in the Lake Tahoe Basin. The biggest population center is the City of South Lake Tahoe.

### **B. Office of Ratepayer Advocates**

ORA is a statutorily established Office within the Commission, whose mission is to advocate in general rate cases and other proceedings for the lowest possible rate for service consistent with safe and reliable service levels.<sup>3</sup>

### **C. A-3 Customer Coalition**

The Customer Coalition is an ad hoc coalition of large commercial customers taking electric service under Liberty Utilities' Schedule A-3. The current members of the coalition are South Tahoe Public Utility District, Lake Tahoe Resort Hotel, Heavenly Mountain Resort, Northstar California Resort, Grand Residence Club/Timber Lodge, Squaw Valley Resort, and Alpine Meadows Resort.

## **II. PROCEDURAL HISTORY**

On May 1, 2015, Liberty Utilities filed Phase I of its General Rate Case application for authority to among other things, increase its authorized revenues for electric service, update its Energy Cost Adjustment Clause billing factors, establish marginal costs, allocate revenues, and design rates, as of January 1, 2016 (“Application”). In its Application, Liberty Utilities requested an overall rate increase of 17.34% over the then present rates, which amounts to a revenue increase of \$13.571 million annually, effective January 1, 2016.<sup>4</sup> This request included requests for annual increases in Base Rate revenues of \$11.40 million and in Energy Cost Adjustment Clause rates of \$0.951 million.

The Application additionally requested annual increases of \$23,000 for Liberty Utilities’ Vegetation Management Program, and \$0.130 million for its Energy Efficiency programs. Liberty Utilities also requested the authority to establish a Solar Incentive Program for six years and to fund the Solar Incentive Program over the first three years with \$1.113 million (i.e., \$371,000, annually). In addition, Liberty Utilities requested recovery of a principal amount of \$2.1 million recorded as of March 31, 2015 in its Catastrophic Event Memorandum Account, corresponding to a recovery of a principal amount of \$700,000 during each of the three years.

On June 11, 2015, ORA and the Customer Coalition each protested the Application. On July 17, 2015, Liberty Utilities served Phase II of its testimony which addresses Liberty Utilities’ proposed revenue allocation and rate design. On September 22, 2015, Administrative Law Judge MacDonald convened a Prehearing Conference, at which the Settling Parties were the lone participants. On September 29, 2015, Assigned Commissioner Randolph issued a Scoping

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<sup>3</sup> Cal. Pub. Util. Code §309.5.

<sup>4</sup> Application, at 1.

Memo and Ruling establishing the procedural schedule and addressing the scope of the proceeding.

On October 6, 2015, Liberty Utilities filed a motion requesting authority to establish a memorandum account to record the difference between the current rates as of December 31, 2015 and the final rates the Commission authorizes for Liberty Utilities' Test Year 2016. On December 28, 2015, the Commission issued Decision 15-12-035 authorizing Liberty Utilities to establish the General Rate Case Memorandum Account in the manner Liberty Utilities proposed.<sup>5</sup>

On November 9, 2015, ORA served Phase I testimony. Within its Phase I testimony, ORA opposed various components of the requests Liberty Utilities made in the Application. ORA also accepted many of Liberty Utilities' proposals (e.g., depreciation, sales and revenue forecast, and several components of the Rate Base).<sup>6</sup> On November 23, 2015, ORA served its Phase II testimony and Customer Coalition served its Phase I and II testimony. On December 7, 2015, Liberty Utilities and Customer Coalition each served their respective rebuttal testimonies. In its rebuttal testimony on Phase II, Liberty Utilities stated its acceptance of some of the revisions and changes that ORA had proposed in its Phase II direct testimony.

Shortly after the submission of rebuttal testimony in December 2015, Liberty Utilities and ORA initiated discussions with the objective to ensure a consistency between the models Liberty Utilities and ORA were each using to assess their respective positions and also to preliminarily discuss possible approaches to settlement. Liberty Utilities and ORA continued to

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<sup>5</sup> Liberty Utilities filed Advice Letter 54-E on December 29, 2015 to establish the General Rate Case Memorandum Account, effective as of January 1, 2016. *See* D.15-12-035, mimeo at 5 (Ordering Paragraph No. 4).

<sup>6</sup> Ex. ORA-6, at 2:2-3:6; Ex. ORA-8, at 1, Table 8-1; Ex. ORA-7, at 2:2-14.

engage in these discussions regarding the consistency of the modeling and associated assumptions and settlement over the next several months.

On March 30, 2016, Administrative Law Judge MacDonald issued a ruling requesting Liberty Utilities to serve supplemental testimony regarding its use of the safe harbor tax election method of accounting for repair of electric transmission and distribution property. Liberty Utilities served this supplemental testimony on April 15.

On April 20, 2016, Administrative Law Judge MacDonald conducted a conference call to discuss the status of the settlement negotiations and various procedural and scheduling issues in the event settlement was not reached.

On April 27, 2016, Liberty Utilities and ORA reached an agreement in principle on the resolution of all issues relating to the revenue requirement aspect of the proceeding. On that same day, counsel for Liberty Utilities advised Administrative Law Judge MacDonald of the Liberty Utilities/ORAs settlement on the revenue requirement issues.

Shortly thereafter, Customer Coalition and ORA initiated discussions relating to settlement of the revenue allocation issues that Customer Coalition had raised. ORA and Customer Coalition were able to reach an agreement in principle on May 2, and Liberty Utilities agreed to join in their settlement.

On May 3, in response to a request by Administrative Law Judge MacDonald, Liberty Utilities distributed on behalf of the Settling Parties a Comparison Exhibit setting forth the primary terms of the settlement. On May 4, Commissioner Randolph and Administrative Law Judge MacDonald convened a hearing (“May 4 Hearing”) at which Liberty Utilities presented an overview of the settlement terms contained in the Comparison Exhibit and the Settling Parties each responded to questions relating to the Settlement.

The Settlement attached to this Joint Motion memorializes the specific terms and conditions that the Settling Parties have mutually accepted for purposes of resolving this proceeding.

On May 4, pursuant to Rule 12.1(b), the Settling Parties provided written notice to the Service List in this matter that a settlement conference would be conducted by conference call on May 12, at 10:30 A.M. to discuss the proposed Settlement. The settlement conference was conducted on May 12 via a conference call. The only participants were the Settling Parties.

### **III. SUMMARY OF SETTLEMENT AGREEMENT**

The Settlement represents mutually accepted compromises among the Settling Parties regarding revenue requirement, cost of capital, revenue allocation, rate design, and other issues. The Settlement generally delineates the respective “starting positions” of the Settling Parties regarding the various issues, and the settled amount or other terms and conditions agreed upon.

As a result of the negotiations by the Settling Parties, all disputed issues raised in the protests and testimonies of ORA and the Customer Coalition have been resolved. The basic components of the Settlement are generally described as follows.

#### **A. Overall Change in Rates**

Sections 4.1 through 4.3 of the Settlement provide that the annual aggregate change in the total revenue requirement (i.e., Base Rate and Energy Cost Adjustment Clause) shall be an increase of just under \$1.0 million. Specifically, the Settlement adopts an overall 2016 Commission-jurisdictional Base Rate revenue requirement increase of \$9.819 million for Liberty Utilities. The Settlement further provides that this increase will be largely offset by Liberty Utilities’ projected over-collection of \$6,673,297 as of September 30, 2016, in its Energy Cost Adjustment Clause Balancing Account. The Settling Parties agree that the overcollection shall be amortized over a twenty-seven month period commencing October 1, 2016 and terminating

December 31, 2018. The combination of the overcollection and amortization period results in an Energy Cost Adjustment Clause 2016 revenue requirement of \$29.903 million—a reduction of the Energy Cost Adjustment Clause 2015 revenue requirement of over \$10 million.

A summary of the Results of Operations showing the increase in total revenue requirement agreed to in the Settlement, a comparison between revenues at present rates and projected revenues at settlement rates, and total revenues for Test Year 2016 is attached as Exhibit A to the Settlement.

**B. Rate Base**

Section 4.4 of the Settlement adopts Liberty Utilities' proposed total company Rate Base of \$143.943 million.

**C. Return on Equity and Capitalization**

Section 4.5 of the Settlement sets forth the Settling Parties' agreement that Liberty Utilities be authorized a Return on Equity of 10.00%, and a capital structure of 47.5%/52.5% debt/equity. The Settling Parties also agree to a long-term debt cost of 4.92%, which results in an overall Rate of Return of 7.51%.

The weighted cost of capital table with the agreed-upon capital structure, debt and equity costs, and Rate of Return is attached as Exhibit B to the Settlement.

**D. Allowance for Funds Used During Construction**

Section 4.6 of the Settlement provides that Liberty Utilities shall use an Allowance for Funds Used During Construction rate of 6.558%.

**E. Taxes and Depreciation**

Section 4.7 memorializes the Settling Parties' agreement to use the methodology Liberty Utilities proposed to calculate federal and state tax rates. Section 4.8 of the Settlement adopts



Liberty Utilities' proposal for a Depreciation Rate of 2.21%.<sup>7</sup> Liberty Utilities revised its depreciation rate based on a new depreciation study it conducted in late 2014.<sup>8</sup>

**F. Customer-Related Forecasts**

Sections 4.9 and 4.10 of the Settlement reflect the agreement to use the electric sales and energy use per customer forecasts that Liberty Utilities proposed. The Settling Parties agree to use 46,683 customer accounts.

**G. Operations and Maintenance Expenses**

Section 4.11 of the Settlement adopts for Liberty Utilities a Test Year 2016 Operations and Maintenance expenses of \$8.499 million. These revenues are intended to fund the Operations and Maintenance functions and tasks that Liberty Utilities will perform in connection with it providing cost-effective, reliable, and safe service to its 49,000 electric consumers. During the May 4 Hearing, Commissioner Randolph and Administrative Law Judge MacDonald questioned Liberty Utilities on the Short-Term Incentive Plan expense line item, which is one of the many components that aggregate into the agreed-upon \$8.499 million Operations and Maintenance expense rate recovery.

Liberty Utilities had proposed \$634,000 to fund its Short-Term Incentive Plan.<sup>9</sup> ORA opposed Liberty Utilities' requests on the basis that any portion of the incentive compensation based on financial performance should be disallowed and that shareholders and customers should share equally in the remaining portion of the incentive compensation.<sup>10</sup> As part of the overall Settlement, ORA and Liberty Utilities agreed that 50% of Liberty Utilities' incentive

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<sup>7</sup> See Ex. Liberty Utilities-1, at 5-1:1–5-3:12.

<sup>8</sup> See Ex. Liberty Utilities-1, at 5-2:2–5-2:8.

<sup>9</sup> Liberty Utilities' recovers its employee-related costs, such as the Short-Term Incentive Plan costs, as Operations and Maintenance and Administrative and General expenses and as capital costs.

<sup>10</sup> Ex. ORA-3, at 16:12–18:5.

compensation expenses may be recovered from customers, but that the shareholders of Liberty Utilities should bear the rest of the costs. As discussed at the May 4 Hearing, this compromise resolution of the Short-Term Incentive Plan is fair and reasonable, consistent with the law, an integral component of the overall Settlement, and should not be excluded from the Commission's approval of the Settlement.

The Short-Term Incentive Plan establishes a "score card" to assess the amount of the Liberty Utilities employee's incentive reward consisting of the following equally-weighted components: (1) Liberty Utilities (i.e., CalPeco Electric) financial performance, (2) operations, (3) customer satisfaction, and (4) individual employee performance.<sup>11</sup> In other words, only 25% of any Short-Term Incentive Plan award is based on financial performance.

Thus even accepting ORA's litigation position that the customers of Liberty Utilities should not be charged for any portion of the incentive compensation which is based on financial performance, the negotiated settlement, which denies Liberty Utilities' cost recovery for 50% of its costs to fund the Short-Term Incentive Plan, is reasonable, and consistent with law and the public interest.

Liberty Utilities has found that its Short-Term Incentive Plan is an indispensable component part of its compensation program to attract and then retain qualified employees. Liberty Utilities faces unique challenges in recruiting employees; its service area is geographically remote, but the local housing costs are relatively high due to the high number of second-home owners. This combination often results in long commutes for employees.<sup>12</sup>

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<sup>11</sup> May 4, 2016 Hearing, Liberty Utilities/Greenwald, Tr. 178:19-24. Mr. Wittman misspoke at the hearing when he quantified the financial and non-financial components of the score card. *See* Liberty Utilities/Wittman, Tr.150:27-151:02.

<sup>12</sup> *See* Liberty Utilities/Greenwald, Tr. 179:9-19.

Lastly, in Liberty Utilities' 2013 general rate case proceeding the parties similarly agreed that Liberty Utilities' customers should bear 50% of the expenses to fund the Short-Term Incentive Plan and the shareholders of Liberty Utilities would be responsible for the other 50%. The Commission approved the overall settlement.<sup>13</sup>

#### **H. Administrative and General Expenses**

Section 4.12 of the Settlement adopts Test Year 2016 Administrative and General expenses of \$8.308 million. During the May 4 Hearing, Commissioner Randolph and Administrative Law Judge MacDonald questioned Liberty Utilities on the "lobbying services" expense line item, which again is one of the many components that aggregate into the agreed-upon \$8.308 million Administrative and General expense rate recovery. ORA initially opposed Liberty Utilities' requests for \$64,500 in annual "lobbying services" expenditures.<sup>14</sup> Ultimately, and as part of the overall resolution of the Administrative and General expenses, ORA and Liberty Utilities agreed that Liberty Utilities' shall be authorized to recover \$32,250 reflecting this expense line item.

The origin of the questions by Commissioner Randolph and Administrative Law Judge Randolph was the label "lobbying" placed on the line item for these expenses; that term does not accurately reflect the purposes for which Liberty Utilities requests these funds. Indeed, ORA initially rejected all funds Liberty Utilities requested, arguing that Commission precedent dictated that shareholders should fund lobbying.<sup>15</sup>

After Liberty Utilities more fully explained its intended use of the funds and the benefit the expenditures would provide its customers, ORA and Liberty Utilities agreed to ratepayer

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<sup>13</sup> See D. 12-11-030.

<sup>14</sup> Ex. ORA-3, at 9:22-25.

<sup>15</sup> Ex. ORA-3, at 9:22-25.

funding for 50% of the request, and Liberty Utilities' shareholders retaining responsibility for the remaining 50%. As discussed at the May 4 Hearing, inclusion of these funds within the context of an overall settlement is just, reasonable, and consistent with the law and the public interest.

The Settling Parties recognize the general prohibition against customers funding lobbying efforts initiated by utilities. They also recognize that California utilities typically have a "Governmental Affairs" department, whose functions include the identification of legislation that could impact the utility and its customers. Liberty Utilities has no such internal Governmental Affairs department, and it thus needs to obtain these services through an outside consultant.

The need for Liberty Utilities to be informed about legislative activities is particularly acute. The State Legislature often enacts "one-size-fits-all" laws relating to the electric industry which focus entirely on issues relating to California's three major electric utilities which each have a million or more customers and annual revenues in the billions of dollars. In contrast, Liberty Utilities, Bear Valley Electric Service, and PacifiCorp each have less than 100,000 customers in California and revenues of less than \$100 million annually. Thus, experience has taught that imposition by the Legislature of initiatives, programs, and reporting requirements that make sense and are cost-effective for the large utilities often are impractical, not cost-effective, or simply not possible for the three smaller utilities.

It is necessary and cost-effective that Liberty Utilities be authorized to recover from its customers a modest amount of funds to best ensure its awareness and knowledge of "one-size-fits-all" legislative proposals. Laws that allow this Commission to decide whether particular programs, initiatives, and reporting requirements should be applied to these small utilities, as opposed to arbitrary decisions by the Legislature, best protect the customers of Liberty Utilities

from incurring the costs to first establish and then implement programs which offer no benefit to their customers or, at best, are not cost-effective.

The Settling Parties' agreement that Liberty Utilities be authorized ratepayer funding for 50% of the expense it requested to retain outside services to provide this necessary governmental affairs function represents a fair and reasonable compromise. The compromise is consistent with the law and in the public interest and does not warrant the Commission ordering that the Settlement be revised.

The Settling Parties agree in Section 4.12 of the Settlement that Liberty Utilities should be authorized to reclassify its forecasted incremental rate case costs that are being recorded in a Miscellaneous Deferred Debit (FERC Account 186) as a Regulatory Asset (FERC Account 182) and amortize those costs over a three-year period starting January 1, 2016 as an adjustment to recorded Administrative and General expenses. Liberty Utilities accepted the condition that these incremental general rate case costs (and the associated accounts) for the 2013 and 2016 general rate cases are to remain subject to audit in Liberty Utilities' next general rate case proceeding.

**I. Franchise Fees and Uncollectible Rate**

Section 4.13 of the Settlement adopts the use of a Franchise Fees and Uncollectible Rate of 1.3512%.

**J. General Rate Case Memorandum Account**

Section 4.14 of the Settlement would authorize Liberty Utilities to, on the last day of the month before the month in which the rates to be approved in this proceeding become effective, make a debit entry to its General Rate Case Memorandum Account in an amount equal to: (a) the difference for the period between (i) Liberty Utilities' current non-fuel generation and distribution Base Rate revenue requirement (inclusive of the Energy Efficiency and Vegetation

Management balancing accounts) and (ii) the non-fuel generation and distribution Base Rate revenue requirement (inclusive of the Solar Incentive Program, Catastrophic Event Memorandum Account, Energy Efficiency, and Vegetation Management balancing accounts) Liberty Utilities would be authorized to recover through rates agreed to in the Settlement; and (b) interest accrued on such difference calculated in the manner set forth in the General Rate Case Memorandum Account.

The Settling Parties further agree that Liberty Utilities shall recover in rates the amount recorded in the General Rate Case Memorandum Account, including interest accrued on the unrecovered balance in the General Rate Case Memorandum Account, over a twenty-seven month period commencing October 1, 2016 and terminating on December 31, 2018.

The Settling Parties agree that Liberty Utilities shall also identify as a separate line item in its bills to customers the amount which is being collected through the General Rate Case Memorandum Account. To the extent necessary, Liberty Utilities shall submit revisions to the General Rate Case Memorandum Account tariff to be updated and otherwise consistent with the provisions of Section 4.14 of the Settlement.

**K. Energy Efficiency**

Section 4.15 of the Settlement would authorize Liberty Utilities recovery of Energy Efficiency expenditures for Test Year 2016 in the amount of \$471,000, with the three-year general rate case cycle aggregate authorization of \$1.413 million. The Settling Parties agree that Liberty Utilities shall maintain its current Energy Efficiency Balancing Account tariff and record in this account the difference between the \$1.413 million revenue requirement authorized for Energy Efficiency programs during 2016, 2017, and 2018 and the expenses Liberty Utilities records for Energy Efficiency programs during this period.

**L. Vegetation Management**

Section 4.16 of the Settlement would authorize Liberty Utilities recovery of Vegetation Management Program expenses of \$2.523 million annually, with the three-year general rate case cycle aggregate authorization of \$7.569 million. The Settling Parties further agrees that Liberty Utilities be authorized to continue its current practice of identifying the rates associated with Liberty Utilities' expenditures for the Vegetation Management Program as a separate line item in customers' bills.

The Settling Parties additionally agree in Section 4.16 of the Settlement that the current version of Liberty Utilities' Vegetation Management Balancing Account tariff shall remain in effect, but shall be revised and amended to reflect the revised revenue requirement authorized in, and the time periods relevant to, the Settlement. The Settling Parties additionally agree that Liberty Utilities shall recover these revenues authorized for its Vegetation Management Program over a thirty-six month period through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged customers starting as of October 1, 2016.

**M. Catastrophic Event Memorandum Account**

Section 4.17 of the Settlement would allow Liberty Utilities to recover a principal amount of \$700,000 in each of 2016, 2017, and 2018, plus interest accrued on the unrecovered amounts in the Catastrophic Event Memorandum Account. The Settling Parties additionally agree that Liberty Utilities shall recover these amounts over a thirty-six month period through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged to customers starting as of October 1, 2016.

**N. Solar Incentive Program**

Section 4.18 of the Settlement would authorize Liberty Utilities recovery of Solar Incentive Program expenditures for Test Year 2016 in the amount of \$371,000, with the three-year general rate case cycle aggregate authorization of \$1.113 million. The Settling Parties agree that the start date for implementation of the Solar Incentive Program shall be October 1, 2016 and it shall run for an initial term of twenty-seven months terminating as of December 31, 2018. Section 4.18 also allows Liberty Utilities to request authority to extend the term of this Solar Incentive Program and/or request authority to initiate a revised program to provide incentives for increased solar penetration in its service territory.

The Settling Parties additionally agree that Liberty Utilities shall recover the costs for the Solar Incentive Program through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged customers starting as of October 1, 2016.

The Settling Parties further agree in Section 4.18 that Liberty Utilities shall recover its costs for the Solar Incentive Program as an additional element of its Public Purpose Program Charges and that these costs are to be allocated among its customer classes in the same manner as the Public Purpose Program Charges. Liberty Utilities shall establish a Solar Incentive Program Balancing Account to track collections and expenditures for the Solar Incentive Program. The proposed tariff implementing the agreed-upon rates and Solar Incentive Program Balancing Account is attached as Exhibit C to the Settlement.

**O. Electric Vehicle Tariff.**

Section 4.19 of the Settlement would authorize Liberty Utilities to implement the Electric Vehicle Time-of-Use Domestic Service and Electric Vehicle Time-of-Use Small General Service tariffs in the manner and in accordance with the pro forma illustrative tariffs Liberty Utilities



proposed in its testimony.<sup>16</sup> The Settling Parties agree that Liberty Utilities shall revise this pro forma tariff to reflect the revised revenue requirement authorized in, and the time periods relevant to, the Settlement.

**P. Voluntary Curtailment Tariff.**

Section 4.20 of the Settlement provides that the Settling Parties agree that Liberty Utilities shall be authorized to submit a Tier 2 Advice Letter to establish a tariff to implement a permanent voluntary curtailment program in the manner Liberty Utilities described in its testimony.<sup>17</sup>

**Q. Revenue Allocation**

Sections 5.1 and 5.2 of the Settlement provide for a revenue allocation to be based on Liberty Utilities' Marginal Cost Study as revised in response to issues raised by ORA and certain agreed-to adjustments. The Marginal Cost Study Liberty Utilities presented in Ex. Liberty Utilities-6 is used as the starting point for the agreed-on revenue allocation and rate design.

Section 5.1 of the Settlement additionally memorializes the agreement among the Settling Parties that in its preparation of its 2019 general rate case proceeding, Liberty Utilities shall use its best efforts to propose an alternative to its current "backcast" methodology for purposes of developing its Marginal Cost Study and shall meet with ORA three (3) months before submitting its application and report on the status of its efforts to use a different methodology to develop the Marginal Cost Study it shall use in the next application.

Liberty Utilities used certain agreed-upon considerations to determine revenue allocation from its Marginal Cost Study. In particular, and as explained by Liberty Utilities' Rate

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<sup>16</sup> See Ex. Liberty Utilities-4, at 3-17:1–3-20:8, Attachment A.

<sup>17</sup> Ex. Liberty Utilities-4, at 3-21:7–3-24:8.

Design/Revenue Allocation witness Mr. Casey,<sup>18</sup> an allocation based strictly on the results of Liberty Utilities' Marginal Cost Study would increase the expense allocation to Street Lights and Irrigation customer classes, by 16.85% and 20.63% respectively, even though the total revenue requirement allocated to customer classes was decreasing. As part of the Settlement, Liberty Utilities revised the revenue allocations to the customer classes in the manner depicted in Exhibit D to the Settlement. Exhibit D illustrates the resulting allocations and provides a comparison between an allocation based on a strict application of the Marginal Cost Study and agreed-upon allocations among the customer classes.

Section 5.2 of the Settlement recites the Settling Parties agreement on the following percentage *decreases* in revenue allocation for each customer class:

1. Residential customers – 8.64%;
2. A-1 customers – 12.00%;
3. A-2 customers – 12.00%;
4. A-3 customers – 10.95%;
5. Streetlight (SL Schedule) customers – 0.06%;
6. Outdoor Lighting (OL Schedule) customers – 7.98%; and
7. Interruptible Irrigation (PA schedule) customers – 0.44%.

Lastly, with respect to revenue allocation, Section 5.3 of the Settlement provides that the cost responsibility for the \$2.523 million in annual Vegetation Management Program expenses be allocated among the various customer classes as shown in Exhibit E to the Settlement. Illustrated in Exhibit E to the Settlement is the Settling Parties' agreement to maintain the Vegetation Management Program rate design for the A-3 customer class approved in Decision 12-11-030. This rate design authorizes recovery of the Vegetation Management Program costs allocated to the A-3 customer class through a fixed monthly customer charge.

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<sup>18</sup> See Liberty Utilities/Casey, Tr. 125:2-126:5.

## **R. Rate Design**

Section 5.4.1 of the Settlement provides a residential rate design that incorporates a residential monthly customer charge of \$6.56 and maintenance of the 17% composite tier differential. The agreed-upon rate design for the residential and the California Alternative Rate for Energy (“CARE”) customer classes is presented in Exhibit F to the Settlement.

Section 5.4.2 of the Settlement also maintains the rate design for the A-3 customer class approved in Decision 12-11-030. The agreed-upon rate design for the A-3 customer class is presented in Exhibit G to the Settlement. The agreed-upon rate design for all other customer classes is set forth in Exhibit H to the Settlement.

## **IV. THE COMMISSION SHOULD APPROVE THE SETTLEMENT IN ITS ENTIRETY**

### **A. Settlements are encouraged.**

Rule 12.1(d) sets the standard for approval of settlements:

The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

The Commission evaluates whether the settlement agreement as a whole is just and reasonable:

In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is necessarily the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.<sup>19</sup>

As noted above, settlements often present a reasonable alternative to litigation:

The Commission has long favored the settlement of disputes. This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources,

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<sup>19</sup> D.12-03-015, mimeo at 19.

and allowing parties to reduce the risk that litigation will produce unacceptable results.<sup>20</sup>

The Settling Parties have each conducted and responded to extensive discovery, and each of the Settling Parties have served and reviewed written testimony on the issues.<sup>21</sup> The Settlement represents each of the Settling Parties' assessment of their interests, an evaluation of the record, and the cost-benefits of litigating as compared with settling.

**B. The Settlement is reasonable in light of the whole record.**

Instead of engaging in protracted litigation, each of the Settling Parties has made substantial concessions to settle this matter and thus conserve not only the Commission's resources, but their own time and expenses. Each of the Settling Parties has determined that the Settlement would resolve the issues more expeditiously and economically than litigation, while reasonably serving their interests and goals.

**1. The Settling Parties have agreed to a reasonable revenue requirement.**

The Settlement would authorize Liberty Utilities an annual Base Rate revenue requirement increase of \$9.819 million. This amount is lower than the \$11.40 million increase Liberty Utilities requested, but more than the \$7.61 million increase recommended by ORA. Thus, the Settling Parties mutually agree and accept the revenue requirement increase of \$9.819 million stated above as a reasonable settlement. Most importantly from the perspective of the customers of Liberty Utilities, the agreed upon aggregate revenue requirement increase of just over 1% is greatly reduced from Liberty Utilities' original request for a 17.34% increase.

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<sup>20</sup> D.12-06-005, mimeo at 13.

<sup>21</sup> Liberty Utilities responded to over 72 different sets of formal data requests, 10 audit requests, and an additional amount of "informal requests." Liberty Utilities also propounded 8 sets of formal data requests. The Settling Parties also engaged in a number of oral communications regarding the discovery they conducted.

Lastly, in addition to the monetary benefit that the Settlement offers to Liberty Utilities' customers, it also provides Liberty Utilities with an adequate means to continue to provide safe, reliable, and cost-effective electric service to its customers.

**2. The Settling Parties have agreed on a reasonable Return on Equity and Capitalization.**

The Settlement adopts for Liberty Utilities a Return on Equity at 10.0%. The Return on Equity level is below the 10.5% that Liberty Utilities had proposed<sup>22</sup> and above ORA's recommendation for a 9.71% Return on Equity.<sup>23</sup> Further, the Settlement adopts a capital structure with a Debt/Equity ratio of 47.5%/52.5%. Liberty Utilities had requested a capital structure with a Debt/Equity ratio of 45.0%/55.0%<sup>24</sup> and ORA recommended 51.63%/48.37%.<sup>25</sup> Thus, after extensive negotiation, the Settling Parties have agreed upon a reasonable Return on Equity and capitalization.

**3. The Revenue Allocation and Rate Design agreed to in the Settlement are reasonable.**

The revenue allocation and rate design principles on which the Settling Parties reached agreement are consistent with Commission precedent and policy. The adjustments agreed upon within this proceeding for purposes of achieving a settlement on the actual rates to be charged are appropriate and do not contravene law. In particular, the Settling Parties' agreed-upon revision to revenue allocation enables all customer classes to share in the decrease.

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<sup>22</sup> Ex. Liberty Utilities-2, at 2-4:19–20.

<sup>23</sup> Ex. ORA-9, at 1:14.

<sup>24</sup> Ex. Liberty Utilities-2, at 1-2:13–20.

<sup>25</sup> Ex. ORA-9, at 1:11–13.

Similarly, after negotiation, the Settling Parties reached an agreement to allocate the Vegetation Management Program costs in the same proportion that was previously approved by the Commission in Liberty Utilities' 2013 general rate case.<sup>26</sup>

As explained before, the residential rate design agreed to by the Settling Parties incorporates a residential customer charge of \$6.56 and maintenance of the 17% composite tier differential between the residential tiers. The agreed-upon residential monthly customer charge is reasonable. It is consistent with ORA's requirements, below the current residential monthly customer charge, and does not contravene Commission policy or precedent.

In addition, the agreed-upon rate design for the A-3 customer class includes a decrease in the A-3 customer charge, a decrease in certain demand charges, and a decrease in all A-3 total energy rates; thus resulting in a beneficial and reasonable result for A-3 customers.

Overall the revenue allocation and rate design proposed by the Settlement are reasonable, are consistent with Commission precedent and policy and, as discussed below, are consistent with the law.

### **C. The Settlement Is Consistent With the Law**

Section 451 of the Public Utilities Code requires that the rates charged by a regulated utility must be just and reasonable. Section 454 prevents an increase in a public utility's rates unless the Commission finds such an increase is justified. Section 701 confers upon the Commission the authority to supervise and regulate public utilities and to do all things necessary and convenient in the exercise of its regulatory jurisdiction.

For the reasons set forth above and those stated in the Settlement, the Settling Parties submit that the Settlement in its entirety is consistent with the law. The record demonstrates that

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<sup>26</sup> See D.12-11-030.

the revenue requirements, rates, rate design, and revenue allocation agreed to in the Settlement are reasonable, justified, and do not contravene California law or Commission policy or precedent.

**D. The Settlement is in the public interest.**

The Settlement is in the public interest because it conserves the scarce resources of the Commission; achieves a mutually acceptable resolution of the proceeding with greater finality, in less time, and at less cost to Liberty Utilities' customers and the Settling Parties than going to hearings. Further, while the Settlement authorizes an increase in Liberty Utilities' revenue requirement by just over 1% annually, that increase is significantly less than the over 17% increase Liberty Utilities had initially proposed. In addition, the revenue allocation proposed in the Settlement would result in a decrease to *all* customer classes and a decrease to the residential monthly customer charge.

**V. TESTIMONIES AND OTHER EXHIBITS**

The Settling Parties have mutually agreed to request that their respective testimonies be moved into the record as marked and itemized below.

The Liberty Utilities exhibits are as follows:

- Ex. Liberty Utilities-1: Summary and Results of Operations;
- Ex. Liberty Utilities-2: Cost of Capital/Return on Equity/Rate of Return;
- Ex. Liberty Utilities-3: Electric Distribution Programs;
- Ex. Liberty Utilities-4: Marginal Cost Study, Revenue Allocation, Rate Design;<sup>27</sup>
- Ex. Liberty Utilities-5: Witness Statements of Qualifications;
- Ex. Liberty Utilities-6: Rebuttal Testimony, served December 7, 2015; and

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<sup>27</sup> This exhibit was initially marked as Phase II, Ex. 1.

- Ex. Liberty Utilities-7: Supplemental Testimony in response to Administrative Law Judge’s Ruling Directing Submission of Supplemental Testimony on March 30, 2016.

The ORA exhibits, which generally are captioned “Report on the Results of Operations for Liberty Utilities (formerly CalPeco Electric) Test Year 2016 General Rate Case,” and served on November 9, 2015,<sup>28</sup> are as follows:

- Ex. ORA-1R: Executive Summary and Post-Test Year Ratemaking;
- Ex. ORA-2R: Revenue Requirement and Income Tax;
- Ex. ORA-3: Administrative & General Expenses and Operation & Maintenance Expenses;
- Ex. ORA-4: Energy Cost Adjustment Clause and Fuel and Purchase Power;
- Ex. ORA-5: Other Taxes Energy Efficiency Programs and Solar Incentive Program;
- Ex. ORA-6: Depreciation;
- Ex. ORA-7: Plant and Rate Base;
- Ex. ORA-8: Sales, Customers, and Revenues Forecast;
- Ex. ORA-9: Cost of Capital Rate of Return and Return on Equity;
- Ex. ORA-10: Results of Examination Vegetation Management and Catastrophic Event Memorandum Account;
- Ex. ORA-11: Qualifications; and
- Ex. ORA-12: Revenue Allocation and Rate Design.

The Customer Coalition exhibits are as follows:

- Ex. Customer Coalition-1: Prepared Direct Testimony of Geoffrey B. Inge, served on November 23, 2015; and

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<sup>28</sup> The current versions of ORA-1R and ORA-2R are revisions to the exhibits which ORA served on November 23, 2015.



- Ex. Customer Coalition-2: Prepared Rebuttal Testimony of Geoffrey B. Inge, served on December 7, 2015.

## **VI. SETTLING PARTIES REQUEST THAT THE COMMISSION ISSUE A FINAL DECISION APPROVING THE SETTLEMENT BY SEPTEMBER 2016**

The Settlement provides that new rates shall be deemed effective January 1, 2016 in accordance with Commission Decision 15-12-035 which established the General Rate Case Memorandum Account for Liberty Utilities. The Settlement is structured (i.e. agreed-upon periods to amortize balancing accounts) and based on the assumption that Liberty Utilities will be authorized to directly charge its customers the revised rates agreed to in the Settlement commencing as of October 1, 2016. The Settling Parties believe that any extended delay in the effectiveness of the revenue requirement and rates agreed to in the Settlement will harm the customers of Liberty Utilities by deferring the decrease in the Energy Cost Adjustment Clause revenue requirement and requiring a larger recovery through the General Rate Case Memorandum Account.

The Settling Parties have accordingly submitted this Joint Motion as soon as practicable and respectfully urge the Commission to issue a Decision granting the Joint Motion and approving the Settlement as soon as practicable or in all events by no later than September 15, 2016.

## **VII. CONCLUSION**

The Settling Parties have achieved a Settlement that is reasonable in light of the whole record, consistent with law, and in the public interest. For the reasons stated above, the Settling Parties respectfully urge the Commission to grant the Joint Motion and thus adopt and approve the Settlement in its entirety on or before the September 15, 2016 Commission Voting Meeting.

Dated this 18th day of May 2016

Respectfully submitted,

By: \_\_\_\_\_/s/

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Attorneys for Liberty Utilities (CalPeco Electric) LLC

ATTACHMENT A

SETTLEMENT AGREEMENT

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of Liberty Utilities (CalPeco Electric) LLC (U 933-E) for Authority to Among Other Things, Increase Its Authorized Revenues For Electric Service, Update Its Energy Cost Adjustment Clause Billing Factors, Establish Marginal Costs, Allocate Revenues, And Design Rates, as of January 1, 2016.

Application No. 15-05-008  
(Filed May 1, 2015)

**ALL-PARTY SETTLEMENT AGREEMENT AMONG LIBERTY UTILITIES  
(CALPECO ELECTRIC) LLC (U933E); THE OFFICE OF RATEPAYER ADVOCATES;  
AND THE A-3 CUSTOMER COALITION**

**1. INTRODUCTION**

- 1.1. In accordance with Rule 12.1, subdivision (a) of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure (“Rule”), the Settling Parties (as defined in Section 2 below) enter into this settlement agreement (“Settlement”) for purposes of resolving this matter without having an evidentiary hearing.
- 1.2. The attached Settling Parties’ Joint Motion to Adopt All-Party Settlement Agreement among Liberty Utilities (CalPeco Electric) LLC (U933E), the Office of Ratepayer Advocates, and the A-3 Customer Coalition (“Settlement Approval Motion”) sets forth the factual and legal bases of the Settlement; advises the Commission of its scope; and presents the grounds on which Commission approval and adoption are urged.
- 1.3. As the Settlement Approval Motion explains, the Settlement complies with Commission requirements for approval of settlements, because it is reasonable in light of the whole record, consistent with the law, and in the public interest. Accordingly, the Settling Parties respectfully request the Commission to adopt and approve this Settlement.
- 1.4. The Settling Parties are entering into this Settlement to avoid the expense and uncertainty of an evidentiary hearing and to expedite Commission approval of tariffs consistent with this Settlement.
- 1.5. Since this Settlement represents a compromise by them, the Settling Parties have entered into each component of this Settlement on the basis that its approval by the Commission not be construed as an admission or concession by any Settling Party regarding any fact or matter of law in dispute in this proceeding or in any other proceeding before the Commission. Furthermore, the Settling Parties intend

that the approval of this Settlement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Settling Party in any current or future proceeding.

- 1.6. All issues among and between the Settling Parties have been resolved.
- 1.7. The Settling Parties agree to the following with respect to the new general and Energy Cost Adjustment Clause rates agreed to in this Settlement: (a) the revised general rates should be deemed effective as of January 1, 2016 and begin being recovered through the General Rate Case Memorandum Account which Commission Decision 15-12-035 authorized Liberty Utilities to establish and implement; (b) the revised general rates shall commence being directly charged to customers as of October 1, 2016 and (c) the revised Energy Cost Adjustment Clause rates shall become effective as of October 1, 2016.

## **2. DEFINITIONS**

- 2.1. The term “Liberty Utilities” means Liberty Utilities (CalPeco Electric) LLC (U 933-E), the Applicant in this proceeding.
- 2.2. The term “ORA” means the Office of Ratepayer Advocates.
- 2.3. The term “Customer Coalition” means the A-3 Customer Coalition.
- 2.4. The term “Settling Parties” means collectively Liberty Utilities, ORA, and the Customer Coalition.

## **3. EXHIBITS**

- 3.1. Liberty Utilities requests that its testimonies be marked as Exhibits (Ex.) Liberty Utilities-1 through Liberty Utilities-7, as follows, and admitted into the record:
  - 3.1.1. Ex. Liberty Utilities-1: Summary and Results of Operations;
  - 3.1.2. Ex. Liberty Utilities-2: Cost of Capital/Return on Equity/Rate of Return;
  - 3.1.3. Ex. Liberty Utilities-3: Electric Distribution Programs;
  - 3.1.4. Ex. Liberty Utilities-4: Marginal Cost Study, Revenue Allocation, Rate Design;<sup>1</sup>
  - 3.1.5. Ex. Liberty Utilities-5: Witness Statements of Qualifications;
  - 3.1.6. Ex. Liberty Utilities-6: Rebuttal Testimony, served December 7, 2015; and
  - 3.1.7. Ex. Liberty Utilities-7: Supplemental Testimony in response to Administrative Law Judge’s Ruling Directing Submission of Supplemental Testimony on March 30, 2016.

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<sup>1</sup> This exhibit was initially marked as Phase Two, Ex. 1.

- 3.2. ORA requests that its written direct testimonies, entitled “Report on the Results of Operations for Liberty Utilities (formerly CalPeco Electric) Test Year 2016 General Rate Case” and served on November 9, 2015<sup>2</sup>, be marked as follows, and admitted into the record:
- 3.2.1. Ex. ORA-1R: Executive Summary and Post-Test Year Ratemaking;
  - 3.2.2. Ex. ORA-2R: Revenue Requirement and Income Tax;
  - 3.2.3. Ex. ORA-3: Administrative & General Expenses and Operation & Maintenance Expenses;
  - 3.2.4. Ex. ORA-4: Energy Cost Adjustment Clause and Fuel and Purchase Power;
  - 3.2.5. Ex. ORA-5: Other Taxes Energy Efficiency Programs and Solar Incentive Program;
  - 3.2.6. Ex. ORA-6: Depreciation;
  - 3.2.7. Ex. ORA-7: Plant and Rate Base;
  - 3.2.8. Ex. ORA-8: Sales, Customers, and Revenues Forecast;
  - 3.2.9. Ex. ORA-9: Cost of Capital Rate of Return and Return on Equity;
  - 3.2.10. Ex. ORA-10: Results of Examination Vegetation Management and Catastrophic Event Memorandum Account;
  - 3.2.11. Ex. ORA-11: Qualifications; and
  - 3.2.12. Ex. ORA-12: Revenue Allocation and Rate Design.
- 3.3. Customer Coalition requests its testimony be marked as follows, and admitted into the record:
- 3.3.1. Ex. Customer Coalition-1: Prepared Direct Testimony of Geoffrey B. Inge, served on November 23, 2015; and
  - 3.3.2. Ex. Customer Coalition-2: Prepared Rebuttal Testimony of Geoffrey B. Inge, served on December 7, 2015.

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<sup>2</sup> The current versions of ORA-1 and ORA-2 are revisions to the exhibits which ORA served on November 23, 2015.

## 4. TERMS AND CONDITIONS REGARDING REVENUE REQUIREMENT

- 4.1. **Overall Change in Rates.** The Settling Parties agree that the annual aggregate change in the Base Rate and Energy Cost Adjustment Clause revenue requirements will be an annual increase in the total amount of \$1.0 million. Liberty Utilities initially requested an overall annual increase of \$13.571 million<sup>3</sup> and ORA had recommended an overall increase of \$ 3.613 million.<sup>4</sup>
- Attached as Exhibit A to this Settlement is a summary of the Results of Operations showing the increase in total revenue requirement as a result of this Settlement, a revenue comparison from revenues at filing to revenues at Settlement, and total revenues for Test Year 2016.
- 4.2. **Overall Base Rate Revenue Requirement.** The Settling Parties agree to an overall 2016 Commission-jurisdictional Base Rate revenue requirement increase in the total amount of \$9.819 million. Liberty Utilities initially requested an overall annual Base Rate increase of \$11.40 million; ORA had recommended an overall increase of \$7.601 million.
- 4.3. **Overall Energy Cost Adjustment Clause Revenue Requirement.** The Settling Parties agree that the Energy Cost Adjustment Clause 2016 revenue requirement should be \$29.903 million, representing a decrease of \$11.020 million from the 2015 Energy Cost Adjustment Clause revenue requirement. The Settling Parties further agree that Energy Cost Adjustment Clause rates should be set presently based on a projection that Liberty Utilities shall have an overcollection in its Energy Cost Adjustment Clause balancing account as of September 30, 2016 in the amount of \$6,673,297 and that the overcollection should be amortized over a twenty-seven month period commencing October 1, 2016 and terminating December 31, 2018.
- 4.4. **Rate Base.** The Settling Parties agree that Liberty Utilities' total Rate Base is \$143.943 million.
- 4.5. **Return on Equity and Capitalization.** The Settling Parties agree to a return on equity of 10.00% and a capital structure of 47.5%/52.5% debt/equity. The Settling Parties also agree to a long-term debt cost of 4.92% and an overall rate of return of 7.51%.

Attached as Exhibit B is a Cost of Capital table with the agreed-upon capital structure, debt and equity costs, and rate of return. Liberty Utilities initially requested a return on equity of 10.5%<sup>5</sup> and a capital structure of 45.0%/55.0%

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<sup>3</sup> Ex. Liberty Utilities-1, at 1-10:6-7.

<sup>4</sup> Ex. ORA-1, at 2:6-7.

<sup>5</sup> Ex. Liberty Utilities-2, at 2-4:19-20.

debt/equity.<sup>6</sup> ORA initially recommended a return on equity of 9.71%<sup>7</sup> and a capital structure of 51.63%/48.37% debt/equity.<sup>8</sup>

- 4.6. ***Allowance for Funds Used During Construction.*** The Settling Parties agree that Liberty Utilities shall use an Allowance for Funds Used During Construction rate of 6.558%.
- 4.7. ***Taxes.*** The Settling Parties agree on the federal and state tax rates used in Liberty Utilities' testimony.<sup>9</sup>
- 4.8. ***Depreciation.*** The Settling Parties agree to Liberty Utilities' proposed depreciation rate of 2.21%.<sup>10</sup>
- 4.9. ***Forecasts of Sales and Energy Use Per Customer.*** The Settling Parties agree to Liberty Utilities' proposed electric sales and energy use per customer forecasts.<sup>11</sup>
- 4.10. ***Forecast of Monthly Customer Accounts.*** The Settling Parties agree to use ORA's recommendation of 46,683 customer accounts. Liberty Utilities had initially recommended a forecast of 46,910.
- 4.11. ***Operations and Maintenance Expenses.*** The Settling Parties agree to Operations and Maintenance Expenses of \$8.499 million for Test Year 2016. Liberty Utilities requested Operations and Maintenance Expenses of \$8.608 million; ORA recommended \$7.004 million.<sup>12</sup>
- 4.12. ***Administrative and General Expenses.*** The Settling Parties agree to Administrative and General Expenses of \$8.308 million for Test Year 2016. Liberty Utilities requested \$8.613 million;<sup>13</sup> ORA recommended \$7.663 million.<sup>14</sup>

The Settling Parties also agree that Liberty Utilities should be authorized to reclassify its forecasted incremental rate case costs that are being recorded in a Miscellaneous Deferred Debit (FERC Account 186) to a Regulatory Asset (FERC Account 182) and amortize those costs over a 3-year period starting January 1, 2016 as an adjustment to recorded Administrative and General Expenses. The incremental rate case costs (and the associated accounts) for the 2013 and 2016 general rate cases remain subject to audit in Liberty Utilities' next general rate case proceeding.
- 4.13. ***Franchise Fees and Uncollectible Rate.*** The Settling Parties agree that Liberty Utilities shall apply a Franchise Fees and Uncollectible Rate of 1.3512%.
- 4.14. ***General Rate Case Memorandum Account.*** The Settling Parties agree that Liberty Utilities shall on the last day of the month before the month in which the

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<sup>6</sup> *Id.*, at 1-2:13-20.

<sup>7</sup> Ex. ORA-9, at 1:14.

<sup>8</sup> *Id.*, at 1:11-13.

<sup>9</sup> See Ex. Liberty Utilities-1, at 4-1:1-4-8:13.

<sup>10</sup> See Ex. Liberty Utilities-1, at 5-1:1-5-3:12.

<sup>11</sup> See Ex. Liberty Utilities-1, at 7-1:1-7-5:11.

<sup>12</sup> Ex. ORA-3, at 3:4-6.

<sup>13</sup> Ex. Liberty Utilities-1, at Table 1-2A, page 3, line 27.

<sup>14</sup> Ex. ORA-3, at 2:11-13.



rates to be approved in this proceeding become effective make a debit entry to its General Rate Case Memorandum Account in an amount equal to: (a) the difference for the period between (i) Liberty Utilities' current non-fuel generation and distribution Base Rate revenue requirement (inclusive of the Energy Efficiency and Vegetation Management balancing accounts) and (ii) the non-fuel generation and distribution Base Rate revenue requirement (inclusive of Solar Incentive Program, Catastrophic Event Memorandum Account, Energy Efficiency, and Vegetation Management balancing accounts) Liberty Utilities is being authorized to recover through rates in this Settlement; and (b) interest accrued on such difference calculated in the manner set forth in the General Rate Case Memorandum Account.

The Settling Parties further agree that Liberty Utilities shall recover in rates the amount recorded in the General Rate Case Memorandum Account, including interest accrued on the unrecovered balance in the General Rate Case Memorandum Account, over a 27 month period commencing October 1, 2016 and terminating on December 31, 2018.

Liberty Utilities shall also identify as a separate line item in its bills to customers the amount which is being collected through the General Rate Case Memorandum Account. To the extent necessary, Liberty Utilities shall submit revisions to the General Rate Case Memorandum Account tariff to be updated and otherwise consistent with the provisions of this Section 4.14.

- 4.15. ***Energy Efficiency.*** The Settling Parties agree to Energy Efficiency expenditures for Test Year 2016 of \$471,000, with the 3-year aggregate authorization of \$1.413 million. Liberty Utilities had requested \$495,000 annually<sup>15</sup> and ORA had recommended \$445,417 annually.<sup>16</sup> The Settling Parties further agree that Liberty Utilities shall maintain its current Energy Efficiency Balancing Account tariff and record in such account the difference between the \$1.413 million revenue requirement authorized for Energy Efficiency programs during 2016, 2017, and 2018 and Liberty Utilities' recorded Energy Efficiency programs expenses; provided Liberty Utilities shall update and revise its Energy Efficiency Balancing Account tariff to incorporate the revised revenue requirement authorized in, the resulting rates, and the time periods relevant to, this Settlement. The Settling Parties additionally agree that Liberty Utilities shall recover these amounts over a thirty-six month period through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged to customers starting October 1, 2016.
- 4.16. ***Vegetation Management.*** The Settling Parties agree that Liberty Utilities may recover Vegetation Management Program expenses of \$2.523 million annually<sup>17</sup> and that the 3-year aggregate authorization is \$7.569 million. The Settling Parties further agree that Liberty Utilities will continue to identify the rates associated

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<sup>15</sup> Ex. Liberty Utilities-3, at 3-1:12–15.

<sup>16</sup> Ex. ORA-5, at 5:12–13.

<sup>17</sup> Ex. Liberty Utilities-3, at 1-2:15–18; *see also* Ex. ORA-10, at 2:2-3 (ORA did not recommend any adjustments to Liberty Utilities' request).

with its expenditures for the Vegetation Management Program as a separate line item on the bill to customers.<sup>18</sup>

The Settling Parties additionally agree that the current version in Liberty Utilities Preliminary Statement of the Vegetation Management Balancing Account tariff shall remain in effect, but shall be revised and amended to reflect the revised revenue requirement authorized in, and the time periods relevant to, this Settlement. The Settling Parties additionally agree that Liberty Utilities shall recover these amounts over a thirty-six month period through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged customers starting as of October 1, 2016.

- 4.17. ***Catastrophic Event Memorandum Account.*** The Settling Parties agree that Liberty Utilities recorded the amounts in its Catastrophic Event Memorandum Account in accordance with its Catastrophic Event Memorandum Account tariff, that the costs that Liberty Utilities incurred and recorded in its Catastrophic Event Memorandum Account were reasonable, and that the Commission should authorize its recovery of its Catastrophic Event Memorandum Account-incurred costs in accordance with the Catastrophic Event Memorandum Account tariff. The Settling Parties further agree that Liberty Utilities shall recover a principal amount of \$700,000 in each of 2016, 2017, and 2018, plus interest accrued on the unrecovered amounts. The Settling Parties additionally agree that Liberty Utilities shall recover these amounts over a thirty-six month period through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged customers starting as of October 1, 2016.
- 4.18. ***Solar Incentive Program.*** The Settling Parties agree that Liberty Utilities shall be authorized to implement the Solar Incentive Program proposed in its direct testimony, as modified by this Section 4.18. The start date for implementation of the Solar Incentive Program shall be October 1, 2016 and it shall run for an initial term of twenty-seven months terminating as of December 31, 2018; provided, however, that Liberty Utilities has the right to request authority to extend the term of this Solar Incentive Program and/or request authority to initiate a revised program to provide incentives for increased solar penetration in its service territory.

The Settling Parties further agree that Liberty Utilities shall recover its costs to fund and administer the Solar Incentive Program as an additional element of its Public Purpose Program Charges and allocated in the same manner as the Public Purpose Program Charges. Liberty Utilities shall be authorized in the manner provided in this Section 4.18 to recover \$371,000 in each 2016, 2017, and 2018 to fund the Solar Incentive Program. The Settling Parties additionally agree that Liberty Utilities shall recover the amounts to fund the Solar Incentive Program through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged customers starting as of October 1, 2016.

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<sup>18</sup> D.15-10-030, mimeo at 17 (Ordering Paragraph No. 2).

Liberty Utilities shall establish the Solar Incentive Program Balancing Account to track collections and expenditures for the Solar Incentive Program. A copy of the agreed-upon form of Solar Incentive Program Balancing Account tariff is attached hereto as Exhibit C.

- 4.19. **Electric Vehicle Tariff.** The Settling Parties agree that Liberty Utilities shall be authorized to implement the Electric Vehicle Time-of-Use Domestic Service and Electric Vehicle Time-of-Use Small General Service tariffs in the manner and form Liberty Utilities proposed in its testimony,<sup>19</sup> but such tariff shall be revised and amended to reflect the revised revenue requirement authorized in, and the time periods relevant to, this Settlement.
- 4.20. **Voluntary Curtailment Tariff.** The Settling Parties agree that Liberty Utilities shall be authorized to submit a Tier 2 Advice Letter to establish a tariff to implement a permanent voluntary curtailment program in the manner described in its testimony.<sup>20</sup>

## 5. TERMS AND CONDITIONS REGARDING REVENUE ALLOCATION AND RATE DESIGN

- 5.1. **Marginal Cost Study.** The Marginal Cost Study Liberty Utilities presented in Ex. Liberty Utilities-6 is used as the basis for the revenue allocation and rate design proposed below. Liberty Utilities' revised Marginal Cost Study incorporated the correction of some arithmetic errors ORA identified and also adopted the revised marginal energy costs and marginal customer cost methods ORA proposed. In the preparation of its 2019 general rate case proceeding, Liberty Utilities shall use its best efforts to propose an alternative to its current "backcast" methodology for purposes of developing its Marginal Cost Study and shall meet with ORA three (3) months before submitting its Application and report on the status of its efforts to use a different methodology to develop the Marginal Cost Study it shall use in its Application.<sup>21</sup>
- 5.2. **Revenue Allocation.** The Settling Parties agree, based on the Liberty Utilities' revised Marginal Cost Study and deploying agreed-on revisions, on the total revenue requirement (i.e., Base Rates and Energy Cost Adjustment Clause rates). Such revision resulted in the following percentage decreases in revenue allocation: Residential customers (8.64%), A-1 customers (12.00%), A-2 customers (12.00%), A-3 customers (10.95%), Streetlight customers (0.06%), Outdoor Lighting customers (7.98%), and Interruptible Irrigation customers (PA Schedule) (0.44%). In each case these decreases compare revenues at present rates and forecast 2016 sales and customers with revenues at proposed rates and forecast 2016 sales and customers. This revenue allocation does not include the revenues that are to be collected from a variety of program costs – such as Energy Efficiency, that are proposed to be collected on an equal cents/kWh basis.

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<sup>19</sup> Ex. Liberty Utilities-4, at 3, 3-17:1-3-20:8, Attachment A.

<sup>20</sup> Ex. Liberty Utilities-4, at 3-21:7–3-24:8.

<sup>21</sup> E.g., an alternative method that makes use of actual or recorded data.

Liberty Utilities initially proposed reallocation of class revenue requirements based on Equal Percentage of Marginal Cost (“EPMC”) constrained by an 8.34% cap.<sup>22</sup> ORA proposed a reallocation of class revenue requirements based on System Average Percent Change (“SAPC”) with its calculated SAPC of (6.79)% as a floor and 0% as a cap.<sup>23</sup> Customer Coalition proposed removing Liberty Utilities’ proposed cap.<sup>24</sup> Attached is Exhibit D, which provides the settlement among the Settling Parties on revenue allocation.

- 5.3. ***Revenue Allocation of Vegetation Management Program Expenses.*** Exhibit E shows the results of the revenue allocation of the \$2.523 million agreed upon Vegetation Management Program annual expense. Liberty Utilities initially proposed a separate allocation of the expenses associated with the Vegetation Management Program on an equal cents/kWh-per-kilowatt-hour basis.<sup>25</sup> Customer Coalition proposed allocations of Vegetation Management Program costs to be based on miles of overhead lines, number of customers in each class, and miles of secondary voltage lines versus primary voltage lines. The Settling Parties agreed to allocate the Vegetation Management Program costs in the same proportion they were allocated in the settlement of Liberty Utilities’ 2013 general rate case (D.12-11-030). As in the 2013 Liberty Utilities general rate case proceeding, the allocation to the A-3 customer class will be collected through a customer charge.

5.4. ***Rate Design***

- 5.4.1. ***Residential Customer Rates.*** The rate design incorporates a residential monthly Customer Charge of \$6.56 and maintenance of the 17% composite tier differential between the residential tiers. Liberty Utilities initially proposed a Customer Charge of \$7.67 per month with a volumetric energy rate.<sup>26</sup> ORA proposed no increase to the existing residential Customer Charge of \$7.10.<sup>27</sup> This settlement position results in rates for Residential Customers as summarized in Exhibit F.
- 5.4.2. ***A-3 Customer Rates.*** Rate design for the A-3 customer class includes a decrease in the A-3 Customer Charge, a decrease in certain demand charges, and a decrease in all A-3 total Energy Rates. Vegetation Management Program costs allocated to the A-3 customer class are allocated as described in Section 5.3 above, and will be recovered through a fixed monthly per-customer charge. The agreed-upon rates for A-3 customers are summarized in Exhibit G.
- 5.4.3. ***All Other Rates.*** The Settling Parties agree to a rate design for all other customers as summarized in Exhibit H.

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<sup>22</sup> Ex. Liberty Utilities-4, at 2-1:14–2-3:13.

<sup>23</sup> Ex. ORA-12, at 30:9–17.

<sup>24</sup> Ex. Customer Coalition, at 3:14-16.

<sup>25</sup> Ex. Liberty Utilities-4, at 2-4:15–19.

<sup>26</sup> Ex. Liberty Utilities-4, at 3-5:9–10.

<sup>27</sup> Ex. ORA-12, at 33:20–34:2.

## 6. Other Terms and Conditions

- 6.1. **Commission's Primary Jurisdiction.** The Settling Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedies regarding this Settlement. None of the Settling Parties may bring an action regarding this Settlement in any court or before another administrative agency without having first exhausted its administrative remedies at the Commission.
- 6.2. **Further Actions.** The Settling Parties acknowledge that this Settlement is subject to approval by the Commission. As soon as practicable after all the Settling Parties have signed the Settlement, the Settling Parties through their respective attorneys will prepare and file the Settlement Approval Motion. The Settling Parties will furnish such additional information, documents, or testimonies as the Commission may require for purposes of granting the Settlement Approval Motion and approving and adopting the Settlement.
- 6.3. **No Personal Liability.** None of the Settling Parties, or their respective employees, attorneys, or any other individual representative or agent, assumes any personal liability as a result of the Settling Parties signing this Settlement.
- 6.4. **Non-Severability.** The provisions of this Settlement are non-severable. If any of the Settling Parties fails to perform its respective obligations under this Settlement, the Settlement will be regarded as rescinded.
- 6.5. **Voluntary and Knowing Acceptance.** Each Settling Party hereto acknowledges and stipulates that it is agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other Settling Party. Each Settling Party has read and fully understands its rights, privileges, and duties under this Settlement, including its right to discuss this Settlement with its legal counsel, which has been exercised to the extent deemed necessary.
- 6.6. **No Modification.** This Settlement constitutes the entire Settlement among the Settling Parties regarding the matters set forth herein, which may not be altered, amended, or modified in any respect except in writing and with the express written and signed consent of all the Settling Parties hereto. All prior settlements, agreements, or other understandings, whether oral or in writing, regarding the matters set forth in this Settlement are expressly waived and have no further force or effect.
- 6.7. **No Reliance.** None of the Settling Parties has relied or presently relies on any statement, promise, or representation by any other Settling Party, whether oral or written, except as specifically set forth in this Settlement. Each Settling Party expressly assumes the risk of any mistake of law or fact made by such Settling Party or its authorized representative.
- 6.8. **Counterparts.** This Settlement may be executed in separate counterparts by the different Settling Parties hereto and all so executed will be binding and have the same effect as if all the Settling Parties had signed one and the same document. All such counterparts will be deemed to be an original and together constitute one



and the same Settlement, notwithstanding that the signatures of all the Settling Parties and/or of a Settling Party's attorney or other representative do not appear on the same page of this Settlement or the related Settlement Approval Motion.

- 6.9. ***Binding upon Full Execution.*** This Settlement will become effective and binding on each of the Settling Parties as of the date when it is fully executed. It will also be binding upon each of the Settling Parties' respective successors, subsidiaries, affiliates, representatives, agents, officers, directors, employees, and personal representatives, whether past, present, or future.
- 6.10. ***Commission Adoption Not Precedential.*** In accordance with Rule 12.5, the Settling Parties agree and acknowledge that unless the Commission expressly provides otherwise, its adoption of this Settlement does not constitute approval of or precedent regarding any principle or issue of law or fact in this or any other current or future proceeding.
- 6.11. ***Enforceability.*** The Settling Parties agree and acknowledge that after issuance of a Commission decision approving and adopting this Settlement, the Commission may reassert jurisdiction and reopen this proceeding to enforce the terms and conditions of this Settlement.
- 6.12. ***Finality.*** Once fully executed by the Settling Parties and adopted and approved by a Commission decision, this Settlement fully and finally settles any and all disputes among and between the Settling Parties in this proceeding, unless otherwise specifically provided in the Settlement.
- 6.13. ***No Admission.*** Nothing in this Settlement or related negotiations may be construed as an admission of any law or fact by any of the Settling Parties, or as precedential or binding on any of the Settling Parties in any other proceeding, whether before the Commission, in any court, or in any other state or federal administrative agency. Further, unless expressly stated herein this Settlement does not constitute an acknowledgement, admission, or acceptance by any of the Settling Parties regarding any issue of law or fact in this matter, or the validity or invalidity of any particular method, theory, or principle of ratemaking or regulation in this or any other proceeding.
- 6.14. ***Authority to Sign.*** Each Settling Party who executes this Settlement represents and warrants to each other Settling Party that the individual signing this Settlement and the related Settlement Approval Motion has the legal authority to do so on behalf of the Settling Party.
- 6.15. ***Limited Admissibility.*** Each Settling Party signing this Settlement agrees and acknowledges that this Settlement will be admissible in any subsequent Commission proceeding for the sole purpose of enforcing the Terms and Conditions of this Settlement.
- 6.16. ***Estoppel or Waiver.*** Unless expressly stated herein, the Settling Parties' execution of this Settlement is not intended to provide any of the Settling Parties in any manner a basis of estoppel or waiver in this or any other proceeding.
- 6.17. ***Rescission.*** If the Commission, any court, or any other state or federal administrative agency, rejects or materially alters any provision of the Settlement,

it will be deemed rescinded by the Settling Parties and of no legal effect as of the date of issuance of the Commission decision or final ruling, decision, or modification by any court or any other state or federal administrative agency, rejecting or materially altering the Settlement. The Settling Parties may negotiate in good faith regarding whether they want to accept the changes by the Commission, any court, or any other state or federal administrative agency, and resubmit a revised Settlement to the Commission.


## **7. Conclusion**

- 7.1. Each of the Settling Parties has executed this Settlement as of the date appearing below their respective signatures.

[SIGNATURES PAGE FOLLOWS NEXT]

IN WITNESS WHEREOF, the Settling Parties have each executed this Settlement on the date stated below.

**LIBERTY UTILITIES (CALPECO  
ELECTRIC) LLC**



---

Gregory S. Sorenson, President  
Dated: May \_\_, 2016

**A-3 CUSTOMER COALITION**

**OFFICE OF RATEPAYER  
ADVOCATES**

---

Brian Cragg  
Attorney for A-3 Customer Coalition  
Dated: May \_\_, 2016

---

Elizabeth Echols, Director  
Dated: May \_\_, 2016



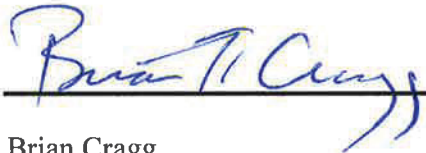
IN WITNESS WHEREOF, the Settling Parties have each executed this Settlement on the date stated below.

**LIBERTY UTILITIES (CALPECO  
ELECTRIC) LLC**

---

Gregory S. Sorenson, President  
Dated: May \_\_, 2016

**A-3 CUSTOMER COALITION**



---

Brian Cragg  
Attorney for A-3 Customer Coalition  
Dated: May 18, 2016

**OFFICE OF RATEPAYER  
ADVOCATES**

---

Elizabeth Echols, Director  
Dated: May \_\_, 2016

IN WITNESS WHEREOF, the Settling Parties have each executed this Settlement on the date stated below.

**LIBERTY UTILITIES (CALPECO  
ELECTRIC) LLC**

---


Gregory S. Sorenson, President  
Dated: May \_\_, 2016

**A-3 CUSTOMER COALITION**

**OFFICE OF RATEPAYER  
ADVOCATES**

---

Brian Cragg  
Attorney for A-3 Customer Coalition  
Dated: May \_\_, 2016



---

Elizabeth Echols, Director  
Dated: May 18, 2016

## EXHIBIT A

### Results of Operations

**LIBERTY UTILITIES (CALPECO ELECTRIC) LLC**  
**SUMMARY OF RESULTS OF OPERATIONS - TOTAL ELECTRIC**  
**FOR THE FORECASTED TWELVE MONTHS ENDING DECEMBER 31, 2016**  
**(\$ IN THOUSANDS)**

Ln.	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	Ln.
No.	Items	Forecast Results of Operations at Present Rates	ECAC, Energy Efficiency, and Vegetation Management Revenues at Present Rates	Forecast Base Rate Revenues at Present Rates [col. (b) - col. (c)]	Additional Base Rate Revenues Required	Base Rate Revenue Requirement at Settlement Rates [col. (d) + col. (e)]	ECAC, Vegetation Management, CEMA, Energy Efficiency, Solar Incentive Revenues at Settlement Rates	Total Revenue Requirement at Settlement Rates [col. (f) + col. (g)]	No.
1	Operating Revenues								1
2	Sales Revenue	73,688.98	39,973.40	33,715.58	9,818.97	43,534.55	29,903.00	73,437.55	2
3	Other Operating Revenue	433.70	-	433.70	-	433.70	-	433.70	3
4	Revenue Credits	1,365.80	-	1,365.80	-	1,365.80	-	1,365.80	4
5	Energy Efficiency (EE)	367.00	367.00	-	-	-	471.00	471.00	5
6	Solar Initiative Program (SIP)	-	-	-	-	-	370.80	370.80	6
7	Vegetation Management (VM)	2,500.00	2,500.00	-	-	-	2,522.50	2,522.50	7
8	Catastrophic Event Memo Acct. (CEMA)	-	-	-	-	-	700.14	700.14	8
9	Total Operating Revenues	78,355.48	42,840.40	35,515.08	9,818.97	45,334.05	33,967.44	79,301.48	9
10	Operating Expenses								10
11	Fuel & Purchased Power	39,973.00	39,973.40	(0)	-	(0)	29,903.00	29,902.60	11
12	ECAC	-	-	-	-	-	-	-	12
13	Total Fuel & Purchased Power Expense	39,973.00	39,973.40	(0)	0	(0)	29,903.00	29,902.60	13
14	VM, CEMA, EE, SIP	2,867.00	2,867.00	-	-	-	4,064.00	4,064.00	14
15	Other O&M Expense	16,807.50	-	16,807.50	3.44	16,810.94	-	16,810.94	15
16	Total Operation & Maintenance	59,647.50	42,840.40	16,807.10	3.44	16,810.54	33,967.00	50,777.54	16
17	Depreciation & Amortization Expense	6,357.60	-	6,357.60	-	6,357.60	-	6,357.60	17
18	Taxes Other Than Income	4,856.36	-	4,856.36	112.03	4,968.39	-	4,968.39	18
19	Deferred Income Taxes	6,357.80	-	6,357.80	-	6,357.80	-	6,357.80	19
20	Amortization of ITC	-	-	-	-	-	-	-	20
21	Federal Income Tax	(3,422.10)	-	(3,422.10)	3,018.69	(403.41)	-	(403.41)	21
22	California Corporate Franchise Tax	(429.50)	-	(429.50)	860.97	431.47	-	431.47	22
23	Total Operating Expenses	73,367.66	42,840.00	30,527.26	3,995.13	34,522.38	33,967.00	68,489.38	23
24	Operating Income	4,987.83	0.00	4,987.83	5,823.84	10,811.67	0.44	10,812.10	24
25	Rate Base								25
26	Gross Plant in Service	270,183.80	0.00	270,183.80	0.00	270,183.80	0.00	270,183.80	26
27	Accum Prov for Depr & Amort	(76,749.10)	-	(76,749.10)	-	(76,749.10)	-	(76,749.10)	27
28	Net Plant in Service	193,434.70	-	193,434.70	-	193,434.70	-	193,434.70	28
29	Additions								29
30	Construction Work In Progress	-	-	-	-	-	-	-	30
31	Materials & Supplies	4,011.30	-	4,011.30	-	4,011.30	-	4,011.30	31
32	Prepayments	319.10	-	319.10	-	319.10	-	319.10	32
33	Other Additions	-	-	-	-	-	-	-	33
34	Working Capital	3,604.72	-	3,604.72	(1,438.64)	2,166.08	-	2,166.08	34
35	Total Additions	7,935.12	-	7,935.12	(1,438.64)	6,496.48	-	6,496.48	35
36	Deductions								36
37	Customer Advances for Construction	(13,437.20)	-	(13,437.20)	-	(13,437.20)	-	(13,437.20)	37
38	Accumulated Deferred Income Tax	(19,426.50)	-	(19,426.50)	-	(19,426.50)	-	(19,426.50)	38
39	Other Deductions	(23,124.00)	-	(23,124.00)	-	(23,124.00)	-	(23,124.00)	39
40	Total Deductions	(55,987.70)	-	(55,987.70)	-	(55,987.70)	-	(55,987.70)	40
41	Rate Base	145,382.12	0.00	145,382.12	(1,438.64)	143,943.48	0.00	143,943.48	41
42	Rate of Return (%)	3.43%		3.43%		7.51%		7.51%	42

## EXHIBIT B

### Weighted Cost of Capital

LIBERTY UTILITIES (CALPECO ELECTRIC) LLC  
WEIGHTED COST OF CAPITAL  
FOR THE FORECAST PERIOD ENDING DECEMBER 31, 2016

Ln No	(a) <u>Description</u>	(b) <u>Capital Amount (\$000)</u>	(c) <u>Capital Ratio</u>	(d) <u>Cost of Capital</u>	(e) <u>Weighted Cost of Capital</u>	Ln No
1	Debt					1
2	Short-Term Debt	5,058	1.84%	1.47%	0.03%	2
3	Customer Deposits	698	0.25%	0.12%	0.00%	3
5	Long-Term Debt	124,935	45.41%	4.92%	2.23%	5
6						6
7	Total Debt	130,691	47.50%	6.51%	2.261%	7
8						8
9						9
10	Equity					10
11	Common Stock	1,268	0.46%	10.00%	0.05%	11
12	Preferred Equity	0	0.00%	10.00%	0.00%	12
13	Common Equity	143,176	52.04%	10.00%	5.20%	13
14						14
15	Total Equity	144,444	52.50%	10.00%	5.25%	15
16						16
17						17
18	Total Capital	275,135	100.00%		7.51%	18
19						19
20						20

## EXHIBIT C

### Solar Initiative Program Balancing Account Tariff

**PRELIMINARY STATEMENT**

(Continued)

**21. SOLAR INITIATIVE PROGRAM BALANCING ACCOUNT**

Liberty Utilities (CalPeco Electric) LLC (Liberty shall maintain a Solar Initiative Program Balancing Account (SIPBA).

**A. Purpose**

The purpose of the SIPBA is to record the difference between the 3-year revenue requirement of \$1,113,000 for the Solar Initiative Program expense the Commission authorized for Liberty in its 2016 General Rate Case (GRC) Decision (16-09-\_\_\_\_) and Liberty's recorded Solar Initiative Program expenses.

**B. Applicability**

The SIPBA is applicable to all rate schedules.

**C. SIPBA rates**

The SIPBA has a rate component. The Solar Initiative Program rate will be collected on an equal cents per kilowatt basis at a rate of \$0.00061 per kWh.

**D. Accounting Procedures**

Liberty shall maintain the SIPBA by making entries at the end of each month as follows:

1. A debit entry equal to Liberty's recorded Solar Initiative Program expense for the month.
2. A credit entry equal to the revenue collected during the month through the Solar Initiative Program rate.
3. Liberty shall apply interest to the average net balance in the SIPBA at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month as reported in the Federal Reserve Statistical Release, H.15, or its successor publication. Accumulated interest will be included in the amount on which interest is accrued, but will be identified as a separate component of the SIPBA.

Advice Letter No. \_\_\_\_\_ Issued by Gregory S. Sorensen Date Filed \_\_\_\_\_  
Name  
Decision No. \_\_\_\_\_ President Effective \_\_\_\_\_  
Title  
Resolution No. \_\_\_\_\_



The Solar Initiative Program will be fully funded for the calendar years 2016, 2017 and 2018. As Liberty will not directly charge its customers the rates authorized in the 2016 GRC until a date after January 1, 2016, Liberty shall make the following entry in the last day of the month in which the Commission issues its final decision authorizing such revised rates:

A credit entry equal to \$30,916.67 times the number of months from January 2016 until the month that the Commission issues a decision in the 2016 GRC<sup>1</sup>.

E. Effective Date

The SIPBA shall become effective on the last day of the month in which the Commission issues its final decision in the 2016 GRC authorizing such revised rates and shall terminate in accordance with Section F.

F. Account Disposition

The SIPBA is a one-way balancing account. Liberty in its next GRC application shall include a summary of the entries to the SIPBA and a proposal for the disposition of any credit balance in the account; provided that Liberty in its next GRC application shall have the right to seek the authority to extend the SIPBA and include in such request a proposal for the disposition of any such credit balance.

<sup>1</sup> The corresponding debit amount will be recorded to the GRC Memorandum Account and collected as outlined in the GRC Memorandum Account Balancing Account tariff.

Advice Letter No. _____	Issued by <u>Gregory S. Sorensen</u> Name	Date Filed _____
Decision No. _____	<u>President</u> Title	Effective _____
		Resolution No. _____

## EXHIBIT D

### Revenue Allocation Among Customer Classes

## EXHIBIT D

### Revenue Allocation Among Customer Classes

(a) Customer Class	(b) Base Rate Revenues at Present Rates <sup>1</sup>	(c) Settlement Base Rate Revenue Allocation w/EPMC <sup>2</sup>	(d) Change Compared to Base Rate Revenue at Present Rates w/EPMC [100*(col (c) / col (b))-1]	(e) Settlement Base Rate Revenue Allocation w/EPMC and Agreed-on Shift	(f) Change Compared to Base Rate Revenue at Present Rates w/EPMC and Agree-on Shift [100*(col (e) / col(b))-1]
Residential	\$40,107,360	\$36,753,950	(8.36)%	\$36,641,051	(8.64)%
A-1	\$16,091,991	\$14,152,793	(12.05)%	\$14,160,952	(12.00)%
A-2	\$7,612,881	\$6,500,510	(14.61)%	\$6,699,335	(12.00)%
A-3	\$17,438,003	\$15,576,386	(10.68)%	\$15,529,058	(10.95)%
Street Lights (SL)	\$71,188	\$83,184	16.85%	\$71,147	(0.06)%
Outdoor Lighting (OL)	\$158,921	\$146,683	(7.70)%	\$146,237	(7.98)%
Irrigation (PA)	\$161,370	\$194,667	20.63%	\$160,659	(0.44)%
Totals	\$81,641,713	\$73,408,174	(10.08)%	\$73,408,440 <sup>3</sup>	(10.08)%

<sup>1</sup> Does not include revenues collected for Energy Efficiency, Energy Cost Adjustment Clause, and Vegetation Management.

<sup>2</sup> Settlement Base Rate Revenues additionally do not include Catastrophic Event Memorandum Account and Solar Incentive Program revenues.

<sup>3</sup> Nominal difference between column (c) and column (e) due to rounding.

## EXHIBIT E

### Revenue Allocation by Customer Class of the Vegetation Management Program

## EXHIBIT E

### Revenue Allocation by Customer Class of the Vegetation Management Program

<b>Customer Class</b>	<b>Allocation of Vegetation Management Program Cost Recovery</b>	<b>Vegetation Management Program Rate (\$/kWh)</b>
Residential	\$1,290,513	\$0.00430
A-1	\$477,896	\$0.00430
A-2	\$279,271	\$0.00498
A-3	\$461,790	N/A <sup>1</sup>
Street Lights (SL)	\$2,415	\$0.00698
Outdoor Lighting (OL)	\$2,802	\$0.00431
Irrigation (PA)	\$8,301	\$0.00430

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<sup>1</sup> A-3 Customers will pay a monthly Customer Charge at a flat rate of \$675.13.

## EXHIBIT F

Rate Design - Residential and CARE Customer Class

## EXHIBIT F

### Rate Design - Residential and CARE Customer Class

<b>D-1 Residential Service</b>	<b>Present</b>	<b>Settlement</b>
Customer Charge (\$/Month)	\$7.10	\$6.56

<b>CARE<sup>1</sup> – CARE Domestic Service</b>	<b>Present</b>	<b>Settlement</b>
CARE Customer Charge (\$/Month)	\$5.68	\$5.25

#### Energy Charges Up to Baseline Quantities (\$/kWh)

	<b>Distribution Charges</b>	<b>Public Purpose Program Charges</b>	<b>Generation Charges</b>
Residential Present	\$0.04735	\$0.00260	\$0.05908
Residential Settlement	\$0.05258	\$0.00275	\$0.04195
CARE Present	\$0.02574	\$0.00107	\$0.05908
CARE Settlement	\$0.03226	\$0.00113	\$0.04195

#### Energy Charges Above Baseline Quantities (\$/kWh)

	<b>Distribution Charges</b>	<b>Public Purpose Program Charges</b>	<b>Generation Charges</b>
Residential Present	\$0.04735	\$0.00260	\$0.08846
Residential Settlement	\$0.05258	\$0.00275	\$0.06808
CARE Present	\$0.01978	\$0.00107	\$0.08846
CARE Settlement	\$0.02703	\$0.00113	\$0.06808

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<sup>1</sup> Rates for California Alternate Rates for Energy Program.

## EXHIBIT G

### Rate Design – A-3 Customer Class



**EXHIBIT G**  
Rate Design – A-3 Customer Class

<b>A-3 Large General Service</b>	<b>Present</b>	<b>Settlement</b>
Customer Charge (\$/Meter/Month)	\$643.48	\$349.91
Demand Charges (\$/kW of Billing Demand/Month)		
Winter On-Peak	\$6.32	\$6.01
Winter Mid-Peak	\$2.49	\$2.27
Summer On-Peak	\$12.49	\$9.92
Facilities Charge (\$/kW of Maximum Demand/Month)	\$3.87	\$3.87

**Energy Charges (\$/kWh)**

	<b>Distribution Charges</b>	<b>Public Purpose Program Charges</b>	<b>Generation Charges</b>
Present			
Winter On-Peak	\$0.01536	\$0.00260	\$0.06006
Winter Mid-Peak	\$0.01312	\$0.00260	\$0.06126
Winter Off-Peak	\$0.00692	\$0.00260	\$0.04903
Summer On-Peak	\$0.02034	\$0.00260	\$0.05991
Summer Off-Peak	\$0.01099	\$0.00260	\$0.04531
Settlement			
Winter On-Peak	\$0.01167	\$0.00275	\$0.05348
Winter Mid-Peak	\$0.00997	\$0.00275	\$0.05460
Winter Off-Peak	\$0.00526	\$0.00275	\$0.04397
Summer On-Peak	\$0.01546	\$0.00275	\$0.05335
Summer Off-Peak	\$0.00835	\$0.00275	\$0.04078

## EXHIBIT H

### Rate Design – Other Customer Classes

## EXHIBIT H

### Rate Design – Other Customer Classes

#### Schedule No. A-1

A-1 Small General Service	Present	Settlement
Customer Charge (\$/Meter/Month)	\$13.44	\$11.83

#### Energy Charges (\$/kWh)

	Distribution Charges	Public Purpose Program Charges	Generation Charges
Present	\$0.05150	\$0.00260	\$0.08583
Settlement	\$0.06027	\$0.00275	\$0.06059

#### Schedule No. A-2

A-2 Medium General Service	Present	Settlement
Customer Charge (\$/Meter/Month)	\$92.54	\$29.79
Demand Charges (\$/kWh)		
Summer	\$5.08	\$5.54
Winter	\$7.81	\$8.52

#### Energy Charges (\$/kWh)

	Distribution Charges	Public Purpose Program Charges	Generation Charges
Present			
Summer	\$0.00000	\$0.00260	\$0.11866
Winter	\$0.01577	\$0.00260	\$0.06103
Settlement			
Summer	\$0.00000	\$0.00275	\$0.10030
Winter	\$0.02673	\$0.00275	\$0.03355

## **Schedule No. PA**

<b>PA – Optional Interruptible Irrigation Service</b>	<b>Present</b>	<b>Settlement</b>
Customer Charge (\$/Customer/Month)	\$13.44	\$11.83

### **Energy Charges (\$/kWh)**

	<b>Distribution Charges</b>	<b>Public Purpose Program Charges</b>	<b>Generation Charges</b>
Present	\$0.01082	\$0.00260	\$0.07150
Settlement	\$0.01667	\$0.00275	\$0.06547

## **Schedule No. SL/OL- Street and Outdoor Lighting**

### High Pressure Sodium Streetlights Rates (\$/Lamp/Month)

<b>Lamp Type (Lumen)</b>	<b>kWh/Month</b>	<b>Distribution Charges*</b>	<b>Public Purpose Program Charges*</b>	<b>Generation Charges*</b>
Present				
5,800	29	\$8.10	\$0.07	\$2.81
9,500	41	\$8.12	\$0.10	\$3.55
22,000	79	\$8.78	\$0.21	\$6.23
Settlement				
5,800	29	\$9.96	\$0.07	\$1.66
9,500	41	\$9.98	\$0.11	\$2.11
22,000	79	\$10.79	\$0.22	\$4.06

### High Pressure Sodium Outdoor Lights Present Rates (\$/Lamp/Month)

<b>Lamp Type (Lumen)</b>	<b>kWh/Month</b>	<b>Distribution Charges*</b>	<b>Public Purpose Program Charges*</b>	<b>Generation Charges*</b>
Present				
5,800	29	\$6.48	0.07	\$2.42
9,500	41	\$6.64	0.10	\$3.11
16,000	67	\$6.92	0.17	\$4.59
22,000	85	\$7.36	0.22	\$5.66
Settlement				
5,800	29	\$6.69	\$0.08	\$1.50
9,500	41	\$6.85	\$0.11	\$2.13
16,000	67	\$7.14	\$0.18	\$3.48
22,000	85	\$7.60	\$0.24	\$4.39

\*The charges have been rounded to two decimal places.